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Technical Study 33
PUBLIC ENTERPRISES AND
EMPLOYMENT IN CANADA

Robert W. Sexty
July 1981

**LABOUR MARKET DEVELOPMENT TASK FORCE
TECHNICAL STUDIES SERIES**



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EMPLOYMENT IN CANADA**

Robert W. Sexty
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This is one in a series of technical studies prepared for the Task Force on Labour Market Development. The opinions expressed are those of the author and do not necessarily reflect those of the Task Force. They do not reflect the views of the Government of Canada.



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ABSTRACT

PUBLIC ENTERPRISES AND EMPLOYMENT IN CANADA

Robert W. Sexty

Those Canadian public enterprises primarily operating to maintain and generate employment were identified and categorized as "failure/rescue" enterprises. Background information on a sample of these enterprises, plus a review of relevant literature, allowed the issues involved in operating public enterprises to be identified. It was concluded that the public enterprise instrument has been used by government for employment policy purposes in an ad hoc manner in most situations.

If the public enterprise instrument is to be used for policy implementation purposes, the government should carefully examine the complete implications and consequences of public ownership. A three-stage decision sequence framework is proposed in the paper: "pre-takeover," "post-takeover" and "restoration/dissolution." The "pre-takeover" stage requires examination of criteria prior to takeover and ascertains the appropriateness of using a public enterprise. The "post-takeover" stage examines the structural aspects including the relationship to government, control mechanisms and management practices. The "restoration/dissolution" stage should identify the status of the public enterprise at some point in the future so that planning can be initiated to reach this status.

It was concluded that public enterprises are a possible and viable instrument for employment policy purposes.

However, they should be viewed as mechanisms of "transition" designed to make the adjustment from the "failure/rescue" situation to a desired stable state when the enterprise may be restored to commercial viability, or to the sometimes inevitable state of dissolution.

If public enterprises are to be used as instruments of employment policy, they should be closely controlled and report to the department responsible for employment. Management planning concepts should be utilized to further control the enterprise and to ensure that it accomplishes predetermined objectives.

SOMMAIRE

LES ENTREPRISES DU SECTEUR PUBLIC ET L'EMPLOI AU CANADA

Robert W. Sexty

Les entreprises canadiennes du secteur public qui fonctionnent surtout dans le but de maintenir ou d'améliorer le niveau de l'emploi sont rangées dans la catégorie des entreprises déficitaires nécessitant de l'aide gouvernementale. Des renseignements généraux sur un échantillon de celles-ci et une analyse de la documentation appropriée ont permis de cerner les questions touchant leur exploitation. On a conclu que la mise en tutelle d'entreprises par l'Etat pour les fins de sa politique d'emploi s'effectue le plus souvent de façon ponctuelle.

Si le gouvernement a l'intention de prendre en main des entreprises en vue de mettre en application sa politique d'emploi, il devrait en étudier attentivement toutes les conséquences. Un processus décisionnel en trois étapes est proposé dans notre étude: l'étape "avant la prise en charge", celle "après la prise en charge" et l'étape de "rentabilisation ou de fermeture". L'étape qui précède la prise en charge comprend une analyse de la situation de l'entreprise selon certains critères afin d'établir l'opportunité d'une telle mesure. L'étape qui suit la prise en charge comprend une étude des aspects organisationnels, notamment des rapports avec le gouvernement, des mécanismes de contrôle et des méthodes de gestion. L'étape de "rentabilisation ou de fermeture" consiste à fixer des objectifs de rentabilité pour l'entreprise afin qu'il soit possible de dresser des plans pour les réaliser.

Il a été conclu que la prise en charge d'entreprises constitue un mécanisme rentable pour la mise en oeuvre de la politique d'emploi du gouvernement. Toutefois, il faut y

voir une solution provisoire visant à rentabiliser l'entreprise déficitaire à défaut de quoi, et c'est parfois inévitable, elle doit fermer ses portes.

Si le gouvernement décide de prendre en main des entreprises pour mettre en oeuvre sa politique d'emploi, il devrait également veiller à ce qu'elles soient suivies de près et relèvent du ministère chargé de l'emploi. Le gouvernement devrait aussi recourir à des techniques de planification de gestion pour mieux diriger l'entreprise et faire en sorte que les objectifs visés soient atteints.

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EXECUTIVE SUMMARY

Those Canadian public enterprises primarily operating to maintain and generate employment were identified and categorized as "failure/rescue" enterprises. Background information on a sample of these enterprises, plus a review of relevant literature, allowed the issues involved in operating public enterprises to be identified. It was concluded that the use of the public enterprise instrument by government for employment policy purposes had been done in an ad hoc manner in most situations.

If the public enterprise instrument is to be used for policy implementation purposes, the government should carefully examine the complete implications and consequences of public ownership. A three-stage decision sequence framework is proposed in the paper, "pre-takeover," "post-takeover," and "restoration/dissolution." The "pre-takeover" stage required examination of criteria prior to takeover and ascertains the appropriateness of using a public enterprise. The "post-takeover" stage examines the structural aspects including the relationship to government, control mechanisms and management practices. The "restoration/dissolution" stage should identify the status of the public enterprise at some point in the future so that planning can be initiated to reach this status.

It was concluded that public enterprises are a possible, and viable, instrument for employment policy purposes. However, they should be viewed as mechanisms of "transition" designed to make the adjustment from the "failure/rescue" situation to a desired stable state when the enterprise may be restored to commercial viability, or to the sometimes inevitable state of dissolution.

If public enterprises are to be used as instrument of employment policy, they should be closely controlled and report to the department responsible for employment. Management planning concepts should be utilized to further control the enterprise and to ensure that it accomplishes the predetermined objectives.

SECTION I

INTRODUCTION TO THE STUDY

The purpose of this study paper is to examine the role of public enterprises in the maintenance and generation of employment in Canada. Public enterprises have been used extensively as a policy instrument, but little examination has occurred relating such enterprises to employment policy.

The paper identifies a category of public enterprises in the goods producing sector which exist primarily to maintain employment. By examining a sample of these public enterprises, some conclusions are developed, and the circumstances under which the public sector took over the enterprises are described.

The examination of the process of government takeover and operation is described in a three-stage decision sequence: pre-takeover; post-takeover; and restoration/dissolution. The paper will emphasize the dilemmas facing the managers of such public enterprises in their efforts to balance the on-going managerial decision making of the enterprise with socio-economic goods in the national interest. Of particular concern will be the role of employment maintenance in the on-going managerial decision making of the enterprise.

SECTION II

PUBLIC ENTERPRISES AND EMPLOYMENT IN CANADA

Government ownership of business enterprise is widespread in Canada. For purposes of this paper, corporations that are wholly, or partly owned, by the Federal and/or provincial governments, are referred to as public enterprises. The term "Crown corporation" is not appropriate as many wholly owned enterprises operate under business corporations/companies acts with no specific legislation, or ownership is shared with other governments or the private sector. According to a list from the Comptroller General of Canada dated March 1980, there are 464 corporations in which the Government of Canada has an interest. (Office of the Comptroller General, 1980). A comparable list is not available for each province. The researcher estimates that there are 225 corporations in which provincial governments have an interest, and the Statistics Canada publication Provincial Government Enterprise Finance 1977 lists 107. Research is presently being conducted on provincial public enterprises. (Vining).

Public enterprises are used as instruments of public policy implementation and considered by some to be a part of the Canadian economic culture. (Hardin, 1974). Public enterprises have been utilized by all political parties and have played a major role in public policy relating to transportation, financial services, trade, research, agriculture and fisheries, energy, communications, and culture and recreation. (Langford, 1979, p. 249). However, the public enterprise has seldom been explicitly described as a policy

instrument for employment purposes. The background to government ownership and public enterprise is not outlined here as it is adequately done elsewhere. (Ashley and Smails, 1968; Balls, 1970; Privy Council Office, 1977; Gélinas, 1978; Hardin, 1974; Hodgetts, 1950; Irvine, 1971; Langford, 1980; Tupper, 1979).

Categorization of Public Enterprises

Researchers have had limited success at categorization of public enterprises existing in Canada. (Langford, 1980). Trebilcock and Prichard (1980) have designed a classification system based upon "Legal and Institutional Characteristics" and "Fields of Activity," but details of the approach have not yet been published. Researchers in other countries have developed numerous classification systems, none particularly useful in the Canadian content. Yet, in order to study the influence of public enterprises in employment, it is necessary to categorize Canadian public enterprises for the following reasons:

- (1) the number of such enterprises is very large and varied;
and
- (2) it is necessary to identify those where "employment" is the purpose for existence.

For the purpose of this study, the categorizations mentioned in Exhibit I cover most public enterprises and identify explicitly those where employment policy is considered to be the focus.

Employment is provided by all the categories identified in Exhibit I. In March 1980, 153,402 persons were employed by Federal

Exhibit I

Public Enterprises in Canada
Categorization by Type of Activity

Type of Activity	Examples
Housing	CMHC, Provincial Housing Corporations
Liquor	Provincial Liquor Corporations
Transportation	CN, BC Rail, Air Canada, PWA
Communication	Tele globe, Provincial Telephone Corporations
Insurance/Financial	FBDB, Canada Deposit Insurance Corporation, Provincial Insurance Corporations
Energy/Resource Development	Electric - Provincial Hydro Corporations Nuclear - Eldorado Nuclear Petroleum - Petrocan, Provincial Petroleum Corporations Mineral - Potash Corporation of Saskatchewan
Culture/Sports/Lotteries	CBC, Canada Council, NAC, Sport Canada, Loto Canada
Transfer Payments/Regulatory	Canadian Dairy Commission Standards Council of Canada, Fisheries Prices Support Board
Research	ECC, Medical Research Council, SCC, SSHRC
Marketing	Canadian Wheat Board, CEMA, Canadian Saltfish Corporation
Industrial Development	Provincial Development Corporations
Failure/Rescue	Ocean Falls Ltd., Labrador Linerboard, Canadair (Refer to Exhibit II).

Note: Some public enterprises may fit into more than one category. Does not include mixed enterprises, subsidiaries, associated corporations.

Source: Prepared by researcher.

public enterprises (Statistics Canada, Federal Government Employment, p. 33) and 67,860 by provincial public enterprises (Statistics Canada, Provincial Government Employment, p. 25). As mentioned, public enterprises are operated to implement a variety of public policies, and it is the last two categories that are most concerned, or most directly involved, with the maintenance and generation of employment opportunities as the principal reason for their existence.

"Industrial development" corporations attempt to establish commercial ventures in areas of high unemployment. However, these public enterprises have been excluded from the study as the instruments they utilize, grants and subsidies, are the same approaches being examined elsewhere in the task force. The "failure/rescue" category corporations may cut across other types, but the principal characteristic is that a government has acquired ownership (or assumed liabilities) when the corporation failed (or was about to fail). In such situations, the maintenance (and maybe expansion) of employment was a focus.

Examples of "failure/rescue" category public enterprises are given in Exhibit II. The totals of approximate employment involved demonstrate the importance of public enterprises in maintaining employment. But, the exhibit does not capture the complete magnitude of the employment numbers involved.

Some enterprises may have been taken over in the past and have since returned to the private sector or have been dissolved. A second group is those enterprises that were considered for "takeover/rescue", but the government involved decided not to acquire ownership. Examples are the failure of Bricklin in New Brunswick and the Come-by-Chance Refinery in Newfoundland.

EXHIBIT II

SELECTED LIST OF FAILURE/RESCUE PUBLIC ENTERPRISES

Public Enterprise	Govern- ment	Date of Take- over	Approximate Employment at Takeover	Approximate Employment Recently
Canadair Limited	Federal	1976	1,400 9,260 (1968 peak)	6,000
Cape Breton Development Corp. (DEVCO)	Federal	1967	7,000	4,300 (coal) 500 man-years (non-coal)
de Havilland Aircraft of Canada Limited	Federal	1974	2,500 5,200 (prior peak)	4,500 3,000 (addi- tional expected)
Nfld. Dockyard & Engineering (CN) Limited	Federal	1949	n/a	n/a
Canadian Cellulose Company Ltd. (CanCel)	B.C.	1973	3,000 (plus loggers)	2,500 (plus loggers)
Kootenay Forest Industries Ltd.	B.C.	1974	n/a	n/a
Ocean Falls Corp.	B.C.	1973	230 (plus loggers)	400 (plus loggers)
Plateau Mills Ltd.	B.C.	1973	280 (mill) 100 (loggers)	n/a
Flyer Industries	Manitoba (MDC)	1971	200 (1976)	n/a
Manitoba Forestry Resources Ltd. (Manfor) Formerly Churchill Forest Industries	Manitoba	1973 (from MDC)	1,200	1,200
Saunders Aircraft Ltd.	Manitoba (MDC)		500 (1975)	Receivership (1976)
Venture Manitoba Tours Ltd.	Manitoba	1971	n/a	n/a
Bricklin Canada Ltd.	N.B. (67%)	1974	700	Receivership (1975)
Brunswick Mills Ltd.	N.B.	1976	150 (mill) 150 (indirect)	n/a

Public Enterprise	Govern- ment	Date of Take- over	Approximate Employment at Takeover	Approximate Employment Recently
Provincial Holdings Ltd. (textiles)	N.B.	1973	225	n/a
Atlantic Gypsum Ltd.	Nfld.	1952	n/a	Sold (1979)
Labrador Liner- board Ltd.	Nfld.	1972	1,700 (1975) 300 (loggers)	900 (est.) plus loggers
Marystown Ship- yard Ltd.	Nfld.	1967	130 (initial) 500 (peak)	600+
Nfld. Fiberply Ltd.	Nfld.	1959	n/a	n/a
Nfld. Hardwoods Ltd.	Nfld.	1950	n/a	n/a
North Star Cement Corp.	Nfld.	1951	n/a	Sold (1978)
United Cotton Mills Limited	Nfld.	1951	n/a	n/a
Clairtone Sound Corporation	N.S.	1970	1,000 (con- struction) 200 (operating projected)	n/a
Sydney Steel Corp. (SYSCO)	N.S.	1967	3,200	3,200 ⁻
Sidbec	Quebec	1968	3,500	5,000
Georgetown Ship- yard Incorporated	P.E.I.		n/a	n/a
Approximate Employment			28,500-36,000	29,000-32,000
Source: Compiled by researcher from personal files.				

With categorization schemes, exceptions arise. Employment is the principal purpose with the Quebec Government involvement in the asbestos industry. The Asbestos Corporation of Quebec is a deliberate policy initiated to create employment in secondary processing industries based upon asbestos. The Federal Department of Indian and Northern Affairs has formed several public enterprises, in conjunction with native peoples' organizations and private interests, presumably to promote employment among native peoples. These enterprises include: Abenaki Motel Ltd., Canadian Arctic Producers Ltd., Crane Cove Oyster Farm Ltd., Lacrosse Ltd., Nanisivik Mines Ltd., and Shong Way Shi Corporation Ltd.

It must also be pointed out that some "takeover/rescue" public enterprises were formerly provided assistance through development corporations. In some cases, the financial burden became so great that the sponsoring government relieved the industrial development corporation of its responsibility and assumed ownership. Examples are provided by Deuterium of Canada Ltd. and Clairtone Sound Corporation who were, initially, clients of Nova Scotia's Industrial Estates Ltd.

Background to the "Failure/Rescue" Categorization

A review of public enterprise literature provides some support for the "failure/rescue" categorization.

Shepherd (1976, p. 39) referred to positive and negative types of public enterprises. The three negative types were:

- (1) the public sponsorship of activities used mainly by the wealthy, for example, commuter services and support of the arts;
- (2) the "sick-industry" public firm, including inefficient plants, and declining industries; and
- (3) the capital-intensive "utility" monopoly such as electric services.

Shepherd's "sick-industry" public firm would appear to equate with the "failure/rescue" category as does Carey-Jones' (1974, pp. 22-3) "salvaging private enterprise" reason for the operation of public enterprises. In Belgium, the stateholding company creates separate companies for lame ducks wished upon it by the government to maintain employment. ("Governments Being Enticed," p. B2).

Tupper (1977) claims there are seven concepts of public enterprise in Canada: job maintenance; community development; sector building; captive markets; income enhancement; supply security; and regulatory purpose. He explains the "job maintenance" concept as using public enterprises to maintain employment in regional economies dominated by failing private firms. The study is based upon a sample of 50, and Tupper uses the Cape Breton Development Corporation, Ocean Falls Ltd., and Sydney Steel Corporation as evidence to support this concept. Tupper's definition, derived from the samples, is narrower than the "failure/rescue" category suggested above. For example, Tupper's concept would not include the takeovers of Canadair and de Havilland.

According to Tupper, the concept of public enterprises for job maintenance involved: the prevention of severe social and economic dislocation; the continuation of an enterprise by the state for a period longer than dictated by commercial considerations; and the

attempt to protect groups disadvantaged by the rapid decline in regionally dominant industries. (1977, p. 26).

The review of the public enterprise literature, in Canada and elsewhere, revealed that little study was being done of public enterprises as an instrument in implementing employment public policy. Employment, as a criteria for evaluating public enterprises, is not explicitly mentioned as most researchers refer to such criteria as pricing, financial targets, and investment. An example from the literature will make the point. Rees, commenting on the British experience, mentioned "... aspects of public enterprise decisions which are regarded as important from the view point of the 'national interest' ...," and distinguished four such aspects:

- (1) economic efficiency, including managerial and technological efficiency and allocative efficiency;
- (2) profitability;
- (3) effects in income distribution, using pricing as an example; and
- (4) macroeconomic effects, including four target variables, the level of unemployment, the rate of inflation, the surplus/deficit on the balance of payments, and the rate of growth of potential national output. (1976, Chapter 1).

With Rees' "social preference ordering" in the national interest as applied to public enterprises, the maintenance of employment did not receive a prominent position. Rees' treatment of employment vis a vis public enterprise is representative. The analysis of public enterprise appears to focus on discussion of pricing, financial targets, and investment criteria with little reference to an "employment" criterion.

In the Canadian context, the use of the public enterprises as an employment policy instrument appears to have been a series of ad hoc responses to the failings of private enterprise and the market economy. It should be pointed out that the Canadian experience differs from the British and other European and developing countries where nationalization of whole industries occurred. In Canada, the rise of the public enterprise as an instrument of public policy is not part of a grand economic or political design, but instead an instrument used in response to particular problems or when other intervention mechanisms appeared inappropriate. Nevertheless, some Canadians view public enterprises as an employment vehicle. For example, Tupper outlined the seven goals of public enterprises to be: economic growth, employment, income distribution, economic diversification, jurisdictional control, political integration, and citizen protection. (1977, pp. 19-23). But, he also claimed that the public enterprise is seldom regarded publicly as an important means for maintaining employment. (1977, p. 27). In Canada, it is more common to view employment as being maintained and generated through the initiation of public works rather than the operation of public enterprises. (Brady, 1939, pp. 305-6).

In order to gain further insight into the use of "failure/rescue" public enterprises as instruments of employment policy, brief descriptions are provided for six situations, Ocean Falls Corporation, Cape Breton Development Corporation, Sydney Steel Corporation, Canadian Cellulose Company Limited, Labrador Liner-board Ltd., and Canadair Limited.

Examples of "Failure/Rescue" Public Enterprise

Failure/Rescue Example #1 - Ocean Falls Corporation

The pulp and paper mill at Ocean Falls, British Columbia, was purchased by the B.C. Government in 1973 from Crown Zellerbach Canada Ltd. for \$789,952. Ocean Falls, located 325 miles north of Vancouver, is a classic company town in an isolated location where, in addition to the mill, the company owned the hotel, the majority of employee homes, the recreational facilities, and a small hydro electric plant. By the early 1970's, the mill required modernization, markets for pulp and paper were slumping, and the company had come to resent increasing government intervention in the industry.

Crown Zellerbach announced, in April 1972, that it was closing down the Ocean Falls mill. The government assumed ownership in March, 1973, and acquired all the Crown Zellerbach land and property in the area, including a wood mill, a groundwood mill, paper-making machines, a hydroelectric dam and generator valued at \$7 million, the town and all its buildings, apartment, duplexes and houses. Under the agreement, Crown Zellerbach was to supply pulp logs and semi-bleached kraft pulp and the mill and was to guarantee the sale of newsprint produced until December 1975. The takeover was justified for social rather than economic policies, and the Resources Minister, at the time, said that "... economically we can't see this as a money-making operation," and that the mill was "... under-sized and inefficient, but we have a great deal of faith in the people and their ability to make it work."

The government invested heavily in the mill, for example, \$7 million was advanced in 1976. A program of systematic upgrading of manufacturing facilities and improvements to the townsite was initiated. The company made a profit of \$1,087,255 for the 1976 accounting year.

In 1980, the prospect of a shutdown, again, confronts the community of Ocean Falls. It has been ascertained that a study of timber availability predicts that there may not be enough wood to supply B.C. coastal forest companies. Ocean Falls Corporation lost about \$8 million in 1979, and it is predicted that losses could be \$16 million in 1980. Private interests have expressed some interest in the mill, but the present plant is largely obsolete and lacks an assured supply of power. Modernization would involve an investment of \$300 to \$400 million and require the government spending \$50 million to build a 100 mile transmission line from the Aluminum Co. of Canada Ltd. generating dam at Kemano.

Failure/Rescue Example #2 - Cape Breton Development Corporation
(DEVCO)

The Cape Breton Development Corporation, a Federal Crown corporation, took over the Cape Breton coal mining operations of the Dominion Steel and Coal Company (DOSCO) in 1967. At the time of takeover, the company employed about 7,000, or 14 percent of the Cape Breton labour force.

The Cape Breton region faced massive unemployment and a crisis with the closing of the coal mines. This crisis coincided with an economic downturn and the instability of other major employment sources. DOSCO's Sydney steel mill had large layoffs during the 1960's, and the Point Edward naval base was to close. Operations

at the Canadian National ferry terminal threatened several hundred jobs in North Sydney. Few alternative sources of employment existed for unemployed miners.

Coal had become a very unstable commodity as less expensive alternative sources of energy were being utilized. DOSCO experienced high operating costs for several reasons, including the high costs associated with subterranean operations and the outmoded plant and equipment. The markets for Cape Breton coal were dwindling, and even the market for coking coal to the Sydney steel mill had been lost.

The Cape Breton coal industry had received Federal Government assistance for years with subvention assistance totaling nearly \$100 million between 1928 and 1960, and \$70 million between 1960 and 1965. In 1965, the Federal Government provided \$25 million to rehabilitate the coal mines. Despite this assistance, DOSCO decided to close the mines.

The Federal Government was faced with three alternatives:

- (1) takeover the mines;
- (2) allow the mines to collapse; and
- (3) encourage private interests to operate the mines.

The government decided to form DEVCO to operate the mines, but to phase them out as alternative employment opportunities were developed. Public ownership was justified as the social problem was unique, and it was necessary in order to prevent the collapse of the Cape Breton economy.

The establishment of DEVCO was most likely the first significant manifestation of using Canadian public enterprise for the maintenance and development of employment opportunities in a depressed

regional economy. DEVCO has operated the coal mines since 1967, but employment levels have fallen to about one-half. The corporation has also been active in promoting employment through the industrial development aspect of its mandate, but has met with limited success. With increasing energy prices and shortages in alternative energy supplies, coal is again attractive, and the commercial viability of the coal operations has improved substantially in recent years.

Tom Kent, former DEVCO President, recently presented a paper that provided several insights into the DEVCO situation. (1980). The DEVCO public enterprise come about and had to do something that the private sector and other government programs were unable to do. (p. 26). Kent claims (p. 6) that DOSCO was looking for the opportunity to "get out," and this suggests that governments should monitor very closely large employers receiving substantial government assistance and/or are on the verge of failure, so as to anticipate and plan for possible takeover.

Kent argues that saying the industry is dead and then, prolonging it, puts management of the "failure/rescue" public enterprise in an impossible situation and one where the chances of success are greatly reduced. Kent feels that the public enterprise should not be considered an employer of "last resort" and that if the situation hopeless, then it should be allowed to fail - the solution is not with the formation of a public enterprise. He claims that it is demoralizing for labor and management to be cast as the "hopeless" case, employer of "last resort." In the DEVCO situation, the transfer to public ownership made no difference as a phase out was involved. (1980, pp. 13-16). Kent spoke of the need for thorough

planning at the time of takeover. He also suggested that if difficult decisions need to be made, then they should be made. In the DEVCO situation, the decision made was what was most comfortable for politicians and civil servants, when maybe the enterprise should have been allowed to fail, or a commitment made to stabilize the enterprise at a more viable size operation of maybe one-half the takeover scale. (pp. 17-19).

Kent pointed out the problems encountered during the DEVCO re-equipment and re-expansion phase. He argues that public enterprise management may be more cautious than their private sector counterparts as they may be inhibited by the irrationalities of public financing. Because of the uncertainty experienced by management, their actions may be slower, less innovative and less efficient. (1980, p. 23).

Failure/Rescue Example #3 - Sydney Steel Corporation (SYSCO)

In October, 1967, the Nova Scotia Government took over the Sydney Steel plant owned by Dominion Steel and Coal Company, employing about 3,200. The reasons given by DOSCO for closing the plant included:

- (1) heavy losses, \$4.3 million in 1966 and \$6.4 million in the first half of 1967;
- (2) the inability to compete in Central Canada because of high transportation costs;
- (3) the existence of excess capacity in a depressed market for steel products; and
- (4) the threat of tariff reductions that would increase competition from the United States.

The plant was also considered to be operating with technologically outmoded steel producing capability.

Employment was a key consideration in the government takeover. The Federal Government had taken over DEVCO earlier the same year and refused to assume ownership. The Nova Scotia Government had little choice but to become involved in order to maintain employment in an area already experiencing 15 percent unemployment.

The management of the plant met with some initial success in the late 1970's. Cheap coal was obtained and the output was sold at good prices on the "spot" market. Employment neared 4,000 in 1970 and was still about 3,500 in 1973. The success has been overshadowed with financial and technological problems ever since. Since the takeover, the Federal Government grants have amounted to about \$105 million and provincial grants to \$138 million. In addition, the plant has debts nearing \$300 million.

The debt charges, plus losses of about \$1 million a week in 1979, have created a financial burden. In 1979, several estimations were made of the capital needed to make the plant viable. These estimates ranged up to \$500 million, \$300 million to write off accumulated debt and \$200 million for plant rehabilitation. Joint Federal-Provincial ownership has been proposed with the Federal Government receiving an equity interest in return for writing off debt. It is being argued that the finances involved are now beyond the capability of the Province to finance.

Meanwhile, employment fluctuates from a low of about 2,000 in 1977 to 3,200 in 1979. In 1980, layoffs of about 800 occurred. New management was introduced in 1980, and both governments are considering possible courses of action such as: shutdown; a scaled-down plant; or an upgraded plant of viable capability. Politicians are continuing to state that this is the last chance for SYSCO.

Failure/Rescue Example #4 - Canadian Cellulose Company Limited*

In June, 1973, the British Columbia Government completed a deal to take over Columbia Cellulose Company, Ltd. (Colcel) creating a new corporation, Canadian Cellulose Company, Ltd. (CanCel), appropriately 80 percent owned. Colcel had been operating in British Columbia for about 25 years. The company operated sulphite and bleached kraft pulp mills at Prince Rupert, a bleached kraft pulp mill and sawmill at Castlegar, and a sawmill at Terrace. The operations of the company had suffered from financial, production, and management problems. Over the years, the parent company, Cellanese Corporation, had lost about \$120 million in Colcel, including an operating loss of \$17 million on sales of \$83.5 million in 1971. Colcel had only one small profit in the 1966 to 1972 period, a large accumulated earnings deficit, a negative net worth and a heavy load of short and long term debt.

The British Columbia Government was concerned that only the commercially viable parts of Colcel's operations would be sold, and that the other parts would be allowed to fail, especially the Prince Rupert sulphite mill, whereby creating unemployment in the Province's Northwest region. The government acquired the corporation by assuming debt obligations of about \$78 million.

A reorganized management team took over and operated under the following circumstances:

- (1) the Board of Directors was appointed by the government

*Data were obtained from the researcher's case study, "Canadian Cellulose Company, Limited: A Case Study of Government Rescue and Turnabout," available from the School of Business Administration, Memorial University of Newfoundland, St. John's, Nfld. A1B 3X5.

upon the recommendation of Cancel's management, with all members being from the private sector.

- (2) the government promised not to intervene.
- (3) management embarked upon a long-term, strategic plan that included: a more appropriate pulp marketing strategy; a program to improve the company's financial condition; a long-term environmental program; and a capital development program.

The decision regarding the Prince Rupert sulphite was difficult. The mill was obsolete and the costs of production were high with 30 percent more wood, three times more energy and more chemicals required to produce the sulphite. The market was also declining for the mill's product, an acetate specialty pulp. Attempts to produce other grades of sulphite pulp in greater demand were not successful. In addition, the mill was a polluter of the air and water, and an expenditure of approximately \$80 million would have been required to alleviate the problem. Thus, the decision was made to spend an additional \$20 million and convert the mill to the production of kraft pulp.

The company decided to close the Prince Rupert sulphite pulp in October 1976 in order to convert it to kraft pulp production, and about 300 workers were laid off. The decision met with considerable resistance. It was claimed that the lay off of the 300 workers by CanCel in the Prince Rupert area would have a ripple effect and actually result in the loss of 700 to 800 jobs in the community. The new plant would employ about 60 workers, but would not be completed until late 1978.

The mayor of Prince Rupert claimed that CanCel had a moral obligation to retain those workers losing jobs and to assist workers in finding comparable jobs. The corporation spent \$2 million on a job program to ease the problem. The program involved early retirements, job relocation aid, promises of hiring preferences as jobs became available, and assistance with the expense of real estate sales. CanCel also organized recruiting by Alcan and Cominco. Recruiting teams from these corporations visited Prince Rupert in the fall of 1976, but had limited success in obtaining workers. In December 1976, it was estimated that one-half of the laid off workers had found jobs.

During an election campaign, the leader of the Social Credit party, William Bennett, had promised that the mill would stay open. Bennett was elected Premier and faced a dilemma. If the government, as the principal shareholder, forced CanCel to keep the mill open, it would be vulnerable to an attack from the minority shareholders who would claim that keeping the mill open was not in their best interests. However, social and political goals also confronted the government. The election promise had been made, and it was socially desirable to keep the mill open in an area of high employment. There appeared to be no way to satisfy the demands of both sides. Bennett did announce that he would not interfere with the closure. The government had also considered paying a subsidy to Canadian Cellulose to keep the mill operating but decided against it. The mill was closed and a new one built.

By 1978, the strategic plan was nearly completed, the Prince Rupert mill nearing completion, and the company in a financially

strong position. In that same year, CanCel was acquired by the British Columbia Resources Investment Corporation.

Failure/Rescue Example #5 - Labrador Linerboard Ltd.

Canadian Javelin Limited presented a proposal for the construction of a linerboard mill and related operations to the Newfoundland Government in 1967. The linerboard mill was to be located at Stephenville, with logging operations and a woodchip mill at Goose Bay. In 1968, the plans changed with the woodchip mill to be constructed in Stephenville, and wood was to be shipped to Stephenville as raw logs.

In 1968, the province and Canadian Javelin Limited entered into an agreement providing for the construction of the linerboard mill, the guarantee by the province of the debt associated with the project and the creation of a first mortgage on the assets to be held by the province.

Construction started in 1969, and the costs of the project increased from the estimated \$53 million to \$91 million in 1971. Cost continued to escalate and, by 1972, the project was in serious difficulty. A government study concluded that the cost of construction would reach \$130 million and that there could be an initial working capital requirement of about \$21 million.

In May 1972, the province passed legislation authorizing the takeover of the project by the province, and a provincial Crown corporation, Labrador Linerboard Limited was created to complete and operate the linerboard mill. Construction was completed by March 1973 at a total capital cost of \$155.4 million, with commercial production commencing on April, 1974.

Problems plagued the operations of the mill. The market for

linerboard was weak, with the industry experiencing excess capacity and weak prices. In 1975, a strike resulted in the mill being shut down 109 days. The lack of sufficient quantities of high yield wood at reasonable cost and the high cost of energy created additional problems. The net annual losses of the company amounted to: \$31.5 million in 1975; \$31.5 million in 1976; \$52.4 million in 1977; and \$27.1 million in 1978. By March 1978, the province had either guaranteed indebtedness or provided advances secured by mortgages on the mill totaling over \$300 million.

The peak employment by the Company was achieved in September 1975, with 295 managerial, supervisory and clerical staff, plus 1,409 hourly personnel. In addition, independent wood cutters supplying the mill employed about 300.

In November 1976, the government established an Advisory Board of senior executives, mainly from the pulp and paper industry, to "assess and evaluate the company's situation as to market, product line, and wood requirements, recommending a long-term strategy for the company in the light of the results of these analyses." In April 1977, the Board recommended the orderly shutdown and mothballing of the mill to give the province time to study all possible conversion and divestiture prospects while minimizing the cash drain. Production at the mill was terminated in August 1977, and a custodial work-force of 50 was employed to maintain the plant.

The government studied divestiture possibilities and eventually accepted a proposal from Abitibi Price Company Limited to convert the mill from the production of linerboard to newsprint. On November 16, 1978, the government entered into an agreement whereby it agreed to sell to Abitibi all the outstanding no par value common shares of

Labrador Linerboard Limited for \$43,500,000. The government also agreed to: sell electrical power on a full cost recovery rate until 1998; supply water at 7¢ per gallon; and provide for a supply of pulpwood to the proposed newsprint mill for twenty years. DREE was to provide a \$15 million grant for the reactivation project. Abitibi agreed to give full opportunity of employment in the mill first to persons normally resident in the province.

The mill was scheduled to begin production of newsprint late in 1980, providing employment for about 300, initially, raising to about 900 (estimated) as production increases. Approximately 400 were employed during the conversion period.

Failure/Rescue Example #6 - Canadair Limited

The aerospace industry declined substantially in the early 1970's. Industry employment neared 50,000 in 1968 and declined to about 28,000 in 1971. By the mid-1970's, aerospace producers around the world were in a serious downturn. A surplus of plants existed, and it was claimed that if producers decided to develop any new planes, they would do so in "home" country plants furthering the decline of the industry in Canada.

In January 1976, the Federal Government purchased Canadair Limited from the General Dynamics Corporation of St. Louis, for \$38.5 million. Employment, at the time, was about 1,400 but had been nearly 10,000 in 1968. At the time of takeover, the Federal Government gave assurances that the enterprise would be returned to the private sector at some time in the future.

The Federal Government had been involved in the industry for some time. It had provided assistance, particularly for research, and at times was a major customer. After being taken over by the

government, Canadair management realized that the enterprise would have to develop a new product if it was to be viable. The market selected was executive jets of medium size. Management felt a potential market existed and proposed development of the Challenger. Although the enterprise faced competition from the Lockheed Jetstar II/731, the Grumman Gulfstream II, and the Falcon 50, management felt that it had an advantage in the market as Canadair was developing a new, different model, not modifying an existing model as were other producers. The Challenger was aggressively marketed, and by August 1980, 128 firm orders had been received. The breakeven was estimated at between 120 and 130, and the potential market at 80 per year for 15 to 20 years. Recently, a stretched version, Challenger E, began development and 40 orders had been obtained.

The original price for the Challenger was \$4.4 million, but this price has increased over the years to about \$7.5 million in 1980. Canadair was also involved in other projects during the period since takeover, including: the Aurora long-range patrol craft; the CL-89 and CL-289 surveillance drone systems; and a rapid transit system for the Ontario Urban Transportation Development Corporation. Employment in 1980 was about 5,000 and increasing.

The enterprise has received additional financing from government and private sources since the takeover, including: an additional \$8.5 million equity investment by the Federal Government; borrowing of \$130 million from the Canadian Imperial Bank of Commerce and the Provincial Bank of Canada, \$70 million of which was guaranteed by the Federal Government; a \$70 million (U.S.) issue of promissory notes in the international market, but with some Government commitments or guarantees; and a \$30 million (U.S.) loan with a "letter of effect" guaranteeing that the Federal Government will be uncondi-

tionally responsible for repaying the loan if Canadair is returned to the private sector.

Summary of the Issues

In this section of the paper, the role of public enterprises in maintaining and generating employment has been examined along with six examples. There are several issues that emerge from this material and the researcher's experience in the area:

- (1) Public enterprise as a policy instrument - The Canadian economy is dominated by private sector business enterprises and the desirability of public enterprises is sometimes questioned. For example, government involvement in CanCel and Ocean Falls Corporation pulp mills was questioned by opposition parties and the business community. Canadian governments, outside of possibly Saskatchewan, use the public enterprise in an ad hoc manner without any master economic plan. It appears that this approach will continue for some time, and it can be concluded that most Canadians accept the use of public enterprise as an instrument of policy and implementation.
- (2) The differences between "failure/rescue" situations - Although Tupper pointed out a commonality in employment public enterprises, the economic, social, and political circumstances under which "failure/rescue" enterprises were acquired differs from one to another. For example, in the three examples involving forestry: two were "old" plants, one a new plant; one was successfully returned to the private sector (CanCel) while another was returned at considerable cost (Labrador Linerboard) and another is

still in a "crisis" state. All examples involve good-producing, commercial operations, but from a variety of industries.

- (3) The perpetuation of maturing industries - At the time of takeover, this may be a correct assumption, especially in the pulp and paper industries. This is not so in other industries, especially in aircraft with de Havilland and Canadair.
- (4) The acquisition of deteriorated plant with out-moded technology - This is frequently the case, for example with CanCel, DOVCO, and SYSCO, but was not the situation with Labrador Linerboard.
- (5) Government involvement prior to ownership - In most examples, government was involved with the private sector enterprise with some assistance through taxation incentives, subsidies, or grants.
- (6) Private-sector bail-out - "Failure/rescue" public enterprises might be "staged" bail-outs by private sector enterprises to relieve them of social obligations. It was suggested that this was the case with Ocean Falls Corporation.
- (7) Lack of enterprise plan - It has been suggested that public enterprises lack a "corporate plan" to which management and owner are committed. DEVCO might be considered as a "failure/rescue" example where a plan, in this case, a

retrenchment plan, was not articulated adequately. In contrast, CanCel used strategic management concepts to plot a course of action.

- (8) Commercial versus socio-economic performance criteria - In any enterprise, there is a conflict between commercial and social responsiveness objectives, but in the public enterprise, the conflict is more evident. Performance measured by commercial criteria may lead to distortions and actions appropriate for short-run, but not long-run, improvements, as may have occurred in SYSCO in the late 1960's. There is little evidence that success criteria have been adequately formulated and communicated to management.
- (9) The dilemmas confronting management - The performance criteria (Point 8) are even more relevant to management. Managers respond to signals, and government must consider which signals they are communicating. In the operation of a public enterprise, it is critical to establish what the manager is to be evaluated upon. If the manager is in the failure/rescue situation, there are major management challenges. The issue is, therefore, "who should play God?" - politicians, civil servants, boards of directors.
- (10) The balance between the need for autonomy and the need for control - Managers require autonomy, but owners (governments) are accountable to the public and, therefore, desire control. A problem exists concerning how to make the public

enterprise act as an instrument of public policy rather than in the interests of the enterprise itself (or the interests of its managers).

- (11) Public expectations of public enterprises - It could be argued that the public expects greater social responsiveness from a public enterprise. For example, the public might expect greater employment opportunities from public enterprises than from private ones subjecting public enterprises to "featherbedding" or "overmanning."
- (12) Changing circumstances over time - The circumstances in which a "failure/rescue" public enterprise finds itself changes, and policy makers must be alert to such changes. DEVCO and SYSCO provide an example, where the performance of the enterprises has reversed in less than ten years. This suggests that, with the "failure/rescue" enterprise, the purpose might be to restore the enterprise to a viable stable state, or to phase it down. Thus, in most cases, a transition period is involved.
- (13) Continuing private interest - The possibility of involving the private sector continues in most cases. Canadair and de Havilland are to return to the private sector. Private sector involvement is still being considered for SYSCO. But, problems exist with privatization.
- (14) Continuing reassessment of the public enterprise as the appropriate policy instrument - Based upon Points 12 and

13, governments should continually reassess the appropriateness of public ownership.

The issues presented challenge the adaptability of the private sector corporate organization and management techniques to the implementation of a public policy through use of the public enterprise. The implications of using public enterprises are examined in more detail in the following section where discussion is structured into three stages of government involvement as suggested by the above list: pre-takeover, post-takeover, and restoration/dissolution.

SECTION III

IMPLICATIONS OF USING PUBLIC ENTERPRISES
AS INSTRUMENTS OF PUBLIC POLICY

It is necessary to examine the implications of using public enterprises for employment policy purposes because of:

- (1) the precedents established in the past;
- (2) the continuing demands from the public for this type of government involvement. (Examples provided by recent headlines: "NDP says Massey jobs would be safe had Crown corporation been formed" - The Globe and Mail, October 16, 1980, 19, and "Union Wants Marystown Yard Kept Under Public Ownership" - The Evening Telegram, St. John's, October 21, 1980, 2); and
- (3) the appropriateness of use given the array of instruments available to the public decision maker.

Point (1) was examined in Section II, and point (2) is self-evident. Point (3) will be discussed in this and the following sections.

The circumstances under which a public enterprise is used in the "failure/rescue" situation include:

- . The enterprise is frequently located in a "single industry" community.
- . The enterprise is the dominant employer in the community.
- . The work force is immobile for several reasons, including age, ties to area, non-transferable skills, and few alternative employment opportunities exist unless the worker is

willing to "step down" in skill level and salary.

- . "Base sector" employment is often involved.
- . The takeover enterprise is often in a "contracting," or mature industry. These enterprises may be in industries susceptible to economic downturns, to periods of industry overcapacity, and to changes in technology.
- . The enterprises are usually taken over suddenly, as they are failing, and in an atmosphere of crisis.
- . The enterprise is usually losing large amounts of money, and the physical facilities are frequently outdated or worn out.

"Failure/rescue" enterprises have occurred on a very ad hoc basis, with little obvious consistency among cases, that is, when government assumes responsibility and when it does not.

In such an atmosphere, it is necessary for the government to consider its actions very carefully. In a "failure/rescue" situation, it is necessary to examine any action in three stages:

- (1) The Pre-Takeover Stage - to ascertain the enterprise's status and the appropriateness of government ownership.
- (2) The Post-Takeover Stage - to establish the social objectives involved and to recognize that this is a "transition" phase. The mandate provided management must be carefully considered, and constant re-assessment occurs.
- (3) The Restoration/Dissolution Stage - to examine the desired status of the enterprise at some future point, and to

initiate actions to bring about change.

The principle point in the above is to highlight the dynamic nature of a decision to take over a "failure/rescue" enterprise. It is no longer appropriate to consider only Stage (1) implications. The holistic view is necessary as outlined in the "Failure/Rescue Decision Sequence," Exhibit III. The following sections discuss the various aspects of this decision sequence.

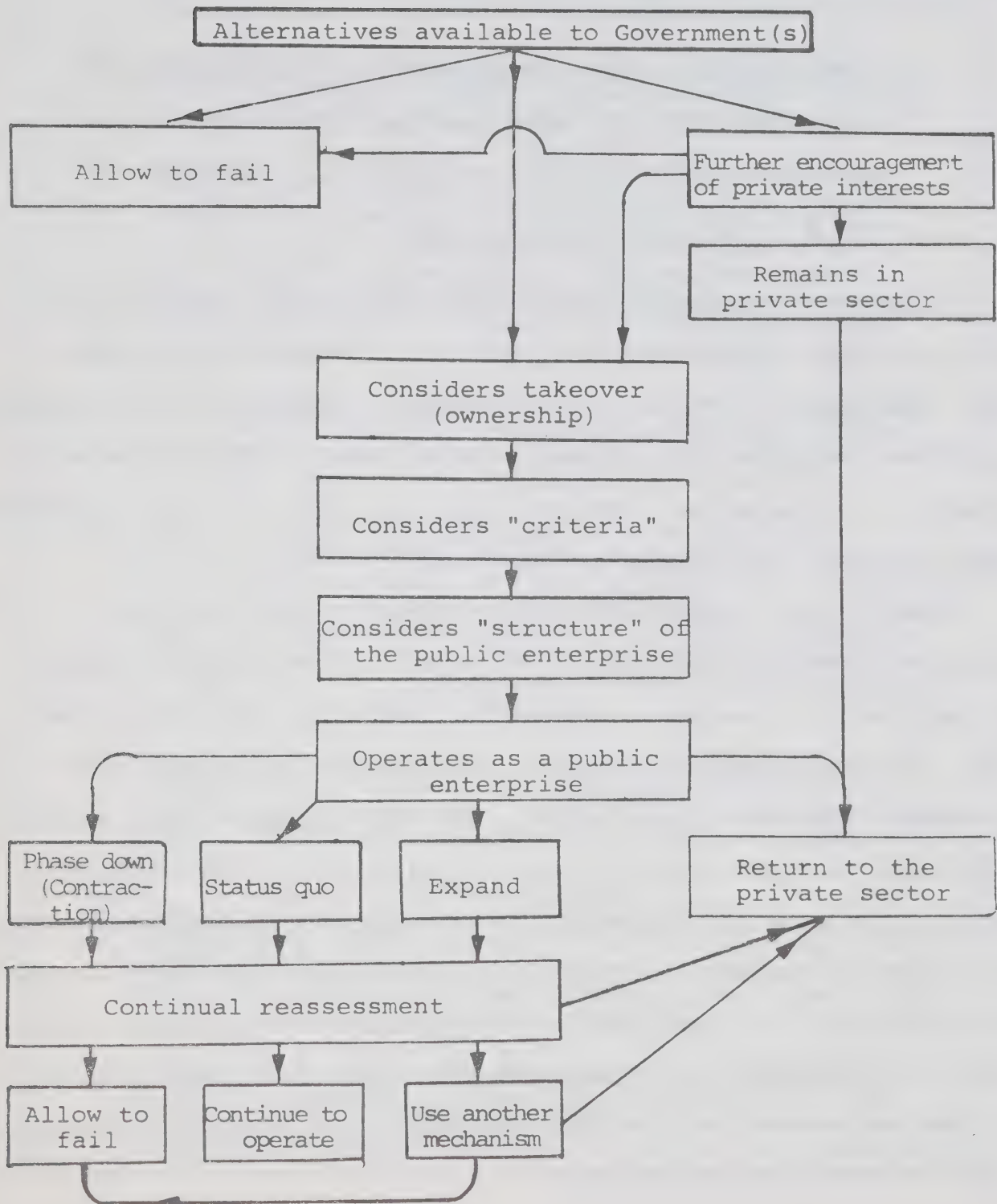
The Pre-Takeover Stage

There are several reasons for studying the "failure/rescue" category of Canadian public enterprises. It is important to articulate the conditions under which public ownership is a useful, or appropriate, solution to an employment problem. It is necessary to ascertain the appropriateness of a government's response to a sudden, large-scale unemployment frequently occurring in a regional area. From past experience, more effective involvement and evaluation criteria can be developed that will be organic and capable of altering, or withdrawing, the public enterprise approach to solving an unemployment problem.

Prior to government takeover, the following events usually occur:

- (1) the private sector corporation experiences difficulty, and this is usually publicly known;
- (2) the corporation usually has availed itself of some of government incentives and assistance available; and

FAILURE/RESCUE DECISION SEQUENCE



- (3) the corporation announces the "close-down" usually about six months in advance.

The government is then faced with three alternatives:

- (1) allow the enterprise to fail;
- (2) offer additional encouragement to the private sector interests, that is, more taxation concessions, grants or loans; and
- (3) consider takeover or ownership.

Exhibit IV summarizes the criteria government should review as it considers involvement via the public enterprise, or ownership, mechanism. In addition, it should be remembered that, because a public enterprise is a "flexible" instrument, there are several structural variables of a public enterprise that might be considered. These variables are summarized in Exhibit V.

None of the variables listed are free of complications. Objective setting is not easy. If a public enterprise is formed by legislation, then Parliament could change the objective or mandate. Past experience illustrates that objectives change without government approval (Blair, 1975), and with congested legislative schedules, Parliament may not get around to making the changes. According to Langford (1979, p. 256), there is little evidence that objective, or mandate, setting or revision, has been a more attractive mechanism of direction from the government's perspective when articles of incorporation have been used. An additional problem focuses on how to interpret the objective, and initiate changes, in light of changing circumstances.

EXHIBIT IV

Criteria to Consider Prior to Takeover

- (1) The status of economy in the area of the failing enterprise - If other industries are healthy and growing, there is less need to take over the corporation.
- (2) The number of persons unemployed - The greater the number of workers, usually unskilled, that will be put out of work, the greater the need for takeover.
- (3) The lack of alternative employment - This relates to (1) and (2) above, but is considered a separate criterion as comparability of employment may be a factor. If the skills of displaced workers do not match the skills required in the new employment opportunities, the government may be under greater pressure to assume ownership if retraining is not feasible.
- (4) Private sector interest - When the government fails to interest other private sector enterprises after offering various forms of assistance, it is left with only two alternatives, takeover or allow to fail.
- (5) The political costs involved - In a takeover of a failing corporation, the economics and politics of nationalization have not been prohibitive to Canadian governments. Seldom has the business sector strongly opposed a government takeover in the failure/rescue category, and, in some cases, business has endorsed a takeover. In a takeover of a failure/rescue type, business is seldom threatened.
- (6) The cost of acquisition - Usually the direct cost of acquisition is modest, although the assumption of debt may be substantial. Frequently, operating costs are partly offset by subsidies, grants or loans previously made.
- (7) Degree of competition for ^{viable} variable private sector enterprises - If the takeover involves a corporation with no competitors in its economic sphere of operation, the takeover is less threatening to the private sector and more politically feasible.
- (8) The impact for private enterprises (or customers) along the industry integration continuum - If the failure of a corporation will create a "break" in the integration of that industry in Canada, or a region,

resulting in additional disruption and need for adjustment, a government might consider a takeover more appropriate. If customers of the failing corporation are large in number (that is, the ultimate consumers), a government may feel continued operation of the corporation justified, especially if no alternative source of the product is readily available.

- (9) The groups to benefit - If it is perceived that the owners of the failing corporation, or other private sector corporations, are to benefit more than workers, a government is less inclined to takeover.
- (10) Future expectations - If the economic prospects for the affected region, or the industry, look at all optimistic, a government may be less inclined to assume responsibility for a failing corporation.
- (11) Complications arising from Federal intervention into provincial jurisdiction - The Federal Government may be reluctant to become involved in a failing corporation clearly within provincial jurisdiction. On the other hand, ownership is a mechanism for becoming involved in a provincial area.

EXHIBIT V

Structural Variables to Consider in
Establishing a Public Enterprise
Summary

(1) The Objectives -

- . the balance between social and financial objectives
- . how to state and change mandates

(2) The Relationship to the Owner -

- . reporting to the Minister, Cabinet, Committee, Parliament, or combination, including Treasury Board, Auditor-General, Privy Council Office, Department of Finance
- . the corporate form to be used, whether created by statute or incorporated under a business corporations act with its own article of incorporation

(3) The Degree of Subsidy or Profit -

- . the amount
- . mechanism for payment, repayment

(4) The Type of Control -

- . Direct by Minister, including membership on Board
- . Policy directives
- . External audits
- . Budget approval
- . Reports to Parliament
- . Reports to "Crown Corporation" Committee as in Saskatchewan and British Columbia
- . Corporate plan submission

- . Appointment of Board of Directors
- . Formation of holding companies as in Saskatchewan

(5) The Type of Internal Structures -

- . Role of Board
- . Appointment of management
- . Location
- . Decentralization of authority
- . Use of subsidiaries

(6) The Approach to Pricing -

- . User pay
- . Cross subsidation
- . Cost allocation

Source: Compiled by researcher.

These variables have been discussed intensively in the literature. Refer to: Tupper, 1979; Balls, 1970; Privy Council Office, Crown Corporations, 1977; Irvine, 1971; Kristjanson, 1968; Royal Commission on Financial Management and Accountability, 1979; Sexty, 1979; Auditor General's Reports, 1976, 1977; Estey, 1975.

Policy directions are difficult to use without endangering the integrity and vitality of the corporate form. The possible use of such directions must be made known to management from the beginning and take into consideration the national and enterprise interests. Control through Board appointments is haphazard, and the budgetary approval process is usually inadequate.

This discussion has focused on the complications of using the public enterprise instrument and leads to two issues: when it is appropriate to use the public enterprise approach, and what structure the public enterprise should take when used for employment policy implementation.

The public enterprise approach should be used when the task in question is a discreet and clearly definable one that can be performed more efficiently under the "corporate form" using corporate management techniques (Langford, 1979, p. 243; Kristjanson, 1968, p. 456; Tupper, 1977, Chapters 1, 10) and removed somewhat from the rigidity, routine and political influence associated with the traditional hierarchial department bureaucracy. A public enterprise is more appropriate than other instruments when matters, such as employment or provision of an essential service, cannot be left to the vagaries of the private-sector marketplace, and when the performance cannot be measured by criteria divorced from public, social purposes.

Government financial resources channelled through public enterprises can be "managed" to a greater extent than when allocated to private sector enterprises. There is less possibility of resources being siphoned off. The private sector enterprise receiving govern-

ment incentives or grants is still using financial targets, and public accounting of funds is difficult with large enterprises of many divisions possibly involving transfer pricing methods.

For purposes of employment policy, the structure of the public enterprise would be closely controlled, but at the same time, make use of corporate plans. The enterprise should report to the Minister/Department for employment policy as the enterprise's objectives will become clouded if it reports to another department with different policy emphasis. Realistic business plans are crucial, as illustrated in the CanCel example. Commenting on his experience at DEVCO, Kent (1980) emphasized the need for thorough planning, particularly the importance of making tough decisions at the time of takeover instead of merely postponing them.

If the decision is made to proceed with public ownership, government should make every effort to acquaint themselves with the circumstances. Even though some public enterprises return to the private sector, the government, at the time of takeover, is making a major commitment in resources to operate and restore the "failure/rescue" enterprise. The decision to takeover should not be made without knowledge of the consequences as withdrawal is usually difficult.

The Post-Takeover Stage

Once it has been determined that the appropriate policy is for the government to take over the failing corporation, it is necessary to establish guidelines as to the operation of the acquired public

enterprise, in light of the combination of structural variable alternatives selected from Exhibit V. In particular, guidelines are required in the following areas:

- (1) objectives
- (2) relationship to owner
- (3) compensation for social demands
- (4) recruitment and retention of competent management
- (5) evaluation and accountability

A major challenge for managers involves objectives, and they must be clearly articulated. In private sector enterprise, efficiency is equated with profitability, and financial statements present a clear and accepted gauge of performance. The problem faced by public enterprise managers is that they must somehow reconcile government, or social, objectives, with financial objectives. Objectives are necessary if the performance of the enterprise and its management are to be meaningfully measured.

Another challenge in managing public enterprises is the relationship to the owner, government. In a private sector enterprise, the shareholder constituency is either widely dispersed, in which case management and the board of directors effectively controls the corporation, or concentrated in a relatively few individuals who can be identified. In the case of a public enterprise, the shareholder is the government, but the government as an owner is represented not only by a board of directors but also by a Minister, the Cabinet, a department, the Parliament, and even the general public. Within the Parliament there are several devices for extracting information on the operations of public enterprises, including the

period, debates, and Parliamentary committees. Government appointed regulatory tribunals may be another connection to government. In an environment where politicians and bureaucrats may be second guessing management, questioning their decisions, or anticipated decisions, managers may find it difficult to operate effectively. In a private corporation, management is answerable in a more orderly manner to the board of directors and once yearly to the shareholders. Ideally, the relationship to government should be unitary and clearly established.

The government's approach to compensating the public enterprise for social demands should be established. The Privy Council Office Report, Crown Corporations, (1977, p. 25) proposed a "principle of compensation" where public enterprises are reimbursed for performance of non-commercial, that is, "social," activities. When public enterprises operated on breakeven concept, there was less need to distinguish between the commercial and non-commercial activities. The profit-target, cost-benefit and net present value techniques are appealing, but may not be able to explain every dimension of commercial behaviour. According to Reed (1973, pp. 33-66), welfare economists propose optimal resource allocation, but in reality, this is rarely the case. However, the "compensation principle" is not without problems. Ascertaining the appropriate level of compensation is difficult. One problem involves deciding whether the government expects the public enterprise to receive compensation equal to the costs of carrying out the social task, or compensation equal to costs plus some margin of profit. (Sexty, 1979, p. 200).

The concept of the social opportunity cost of labor being examined in Module I may be appropriate to consider as a compensation mechanism.

The recruitment and retention of competent management is a particular problem for "failure/rescue" corporations. If an enterprise is portrayed as a failure, many managers will seek other more promising opportunities. Kent (1980) pointed out how demoralized management was when DEVCO was cast as a "employer of last resort." Recently, SYSCO had difficulties recruiting qualified management. On the other hand, CanCel provides an example of where a very effective management team was assembled. Government must be careful not to communicate different signals to management and must be sensitive to keeping managers on "track" towards the agreed upon objective. If such considerations are ignored, management may become discouraged and demotivated, and possibly leave.

Closely related to the above points is the matter of evaluation and accountability of management and the organization. If the need for objectives, a clear relationship, a compensation scheme, and competent management are not recognized, management will find it difficult to evaluate its position, and government will find it difficult to evaluate the public enterprise's performance and to hold management accountable.

What is being suggested here is using modern management as an approach to operating "failure/rescue" enterprises. According to Reed (1973, pp. 33-66), the public enterprise, that is, its owners and managers, should use modern management theory to clarify what

exactly the enterprise is trying to achieve. The use of objectives and strategy development involving long-term plans, marketing emphasis, management by objective, budgetary control and profit centers are most appropriate. The Privy Council Office Report, Crown Corporations, (1977, pp. 34-35) also advocated the use of strategic corporate plans.

Restoration/Dissolution Stage

Contrary to widely held opinion, public enterprises are restored or dissolved. As illustrated on the "Failure/Rescue Decision Sequence," Exhibit III, several alternatives are available after government decides to operate a public enterprise, namely, phase down, continue to operate, expand, and return to the private sector, or allow to fail. Several examples can be drawn from Exhibit II. Canadian Cellulose Company was restored to commercial viability and privatized. Labrador Linerboard was closed and later returned to the private sector. Clairtone Sound Corporation was dissolved. Phase down or contraction is possible as illustrated by DEVCO. Canadair and de Havilland are examples of expanded operations. The possibility of returning the enterprise to the private sector is frequently explored by government, even in cases like SYSCO and Ocean Falls Corporation.

The phase down and privatization alternatives are not without their problems. There may be public resistance to a phase down in operations. However, government may feel this appropriate after a reassessment of the public enterprise's circumstances (Exhibit IV).

Privatization of "failure/rescue" public enterprises, after restoration to commercial viability, may lead to several problems. The price at which the enterprise is sold is difficult to determine. The public may oppose financially supporting an enterprise through a difficult period and, then, allowing private interests to reacquire and reap the benefits. (Sexty, 1978, p. 12). Labor opposed the privatization approach used in British Columbia to dispose of several public enterprises, including CanCel, by selling shares to the public in an enterprise that labor considered to be already owned by the people. Kent (1980) also speculated that the citizens of Cape Breton would resent return of DEVCO to the private sector now that it is becoming commercially viable.

The approach to "continual reassessment" of the "failure/rescue" public enterprise's circumstances is advocated and suggests that a transition process is involved. In a "failure/rescue" takeover, a principle purpose is one of providing for this transition in a meaningful manner. It is possible that the mechanism, that is, the public enterprise, is no longer the appropriate instrument to implement the employment policy, or possibly no longer needed. Also, the objectives of the public enterprise may change over time. The transition process, therefore, is one involving the assessment of the status at takeover, the use of the public enterprise "adjustment" mechanism to facilitate social objectives and the attainment of the planned, desired status.

SECTION IV

SUMMARY OF CONCLUSIONS

The public enterprise is one of the feasible instruments of public policy that might be used to maintain and generate employment. Canada has had considerable experience with public enterprises primarily operating for the purpose of providing employment, and this approach has been acceptable to Canadians. In this paper, these enterprises were categorized as "failure/rescue" public enterprises.

The record of effectiveness at using public enterprises for employment policy purposes has been mixed. Some situations have been complete failures; other situations successful with commercial viability restored and the enterprises returned to the private sector. However, the approach by government has been ad hoc, with decisions sometimes being made in an atmosphere of crisis when all the implications and consequences of public ownership have not been adequately examined. A conclusion reached after examining several "failure/rescue" public enterprises is that the government needs to be more deliberate in monitoring private sector enterprises receiving any form of assistance, particularly large employers in questionable financial circumstances.

Government's approach to using the public enterprise instrument should be to view it as being involved in a "transition" process. Employment problem situations where public ownership is a possibility should be carefully examined or diagnosed to ascertain the appropriateness of using the public enterprise instrument. This is

identified as the "pre-takeover stage." If the decision is made to acquire ownership, a "post-takeover" stage begins in which planning, management, and performance evaluation are emphasized. Continual reassessment of the public enterprise's circumstances is necessary, leading to the third stage, "restoration/dissolution." Although Canadians accept the use of public enterprises, it should not be assumed that they desire an economy dominated by such enterprises. Therefore, "failure/rescue" public enterprises are appropriate instruments to implement employment policy, but as an adjustment mechanism to facilitate the transition from a failure situation to a restored situation, or to a dissolution of the enterprise where employment is reduced in planned stages.

Ownership through public enterprise is appropriate because of the degree of direction, or control, required to ensure implementation of employment policy where a social objective is involved. The public enterprise formed should be closely controlled, even with direct reporting to the Minister/Department responsible for employment policy. Control of the public enterprise can be facilitated by reporting mechanisms but also by effective use of management techniques, particularly planning.

Planning, especially the strategic management approach, is appropriate for these public enterprises. All the "failure/rescue" enterprises are commercial ventures, and the circumstances in which the enterprises find themselves demands carefully developed corporate plans. The takeover must be thoroughly planned if the undertaking is to be successful. Ownership, by itself, solves nothing, and it is how the mechanism of the public enterprise is used that

is important. Finally, management will be more effective in accomplishing the enterprise's objectives if a comprehensive plan is developed, and evaluation of management and the enterprise's performance will be facilitated.

As a social objective is involved, performance evaluated solely on commercial criteria will not be adequate. It is recommended that a concept such as the social opportunity cost of labor be used to provide a "modified" performance criteria. This approach would allow management to make decisions in the interest of employment policy and still enable commercial objectives to be accomplished.

Public enterprises, if effectively utilized, can be a significant instrument in accomplishing the objectives of an employment policy. This paper has reviewed past experience with public enterprises relevant to the maintenance and generation of employment. These initial proposals for the more effective use of such enterprises for employment policy should be more thoroughly investigated.

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